

Capital Budget Process

INTRODUCTION

This section provides a brief introduction to the County government and the capital budget process. The purpose of this section is to acquaint the reader with the organization of this document and to familiarize the reader with the companion Recommended Public Services Program (PSP)/Operating Budget document. A glossary of budget terms and concepts, including acronyms, used in this document is contained elsewhere in this document.

THE BUDGET PROCESS

Authority

The Montgomery County Charter, approved by the voters in 1968 and implemented in 1970, provides for a County Council/Executive form of government. Under this form of government, the Executive develops and recommends budget proposals, and the Council then authorizes expenditures and sets property tax rates. The Charter also provides for an annual six-year Public Services Program, Operating Budget, and Capital Budget, and a biennial six-year Capital Improvements Program (CIP). These budgets and related fiscal and programmatic plans provide the basis for understanding, coordinating, and controlling County government programs and expenditures.

Requirements for submission of, and action on, County budgets are contained in Article 3 of the County Charter. Copies of the Charter are available at Council offices and can also be found by following the hypertext links on the County web site at www.montgomerycountymd.gov/govtmpl.asp. State laws govern budgeting practices for MCPS, Montgomery College, M-NCPPC, and WSSC and provide for an annual CIP for WSSC.

Fiscal Year

The 12-month period used to account for revenues and expenditures in Montgomery County commences on July 1 of each year and ends on June 30 of the following year. A timeline appears at the end of this section.

Operating and Capital Budgets

Under the Charter (Section 303), the County Executive's Recommended Budget includes the Capital Improvements Program (CIP), published by January 15 in even-numbered calendar years; the Capital Budget, published annually by January 15; and the Public Services Program (PSP)/Operating Budget, published annually by March 15. The Charter was amended in 1996 to change the annual requirement for a CIP to

a Capital Budget each year and a CIP for periods beginning in odd-numbered fiscal years.

The proposed budgets must identify all recommended expenditures and the revenues used to fund the budgets. For further information about the PSP/Operating Budget process, please refer to the Operating Budget Process section of the most recent County Executive's Recommended Public Services Program.

The Charter (Section 305) places restrictions on increases in annual budgets, excluding the operating budgets of non-tax supported Enterprise Funds, WSSC, the bi-county portion of M-NCPPC, and Washington Suburban Transit Commission (WSTC). The aggregate budget cannot grow more than the Consumer Price Index-Urban (CPI-U) for all urban consumers in the Washington-Metropolitan area from November to November without at least six votes of the County Council.

Other sections of the Charter prohibit expenditure of County funds in excess of available unencumbered appropriations and the use of long term debt to fund current operating expenses.

Spending Affordability Process

The spending affordability process for the Capital Improvements Program is required by Section 305 of the County Charter and Chapter 20 of the Montgomery County Code and begins by September of each odd-numbered calendar year.

The County Charter was amended in 1990 to include a limit on the annual increase in property tax revenues. Real property tax revenues, with the exception of new construction and property whose zoning or use has changed, may not increase by more than the prior year revenues plus the percentage increase in the Washington area CPI-U unless seven Councilmembers vote to exceed that limit. In addition, the County Council must adopt annual spending affordability guidelines for both the operating and capital budgets which can only be exceeded prior to setting appropriations by a vote of seven of the nine Councilmembers.

By the first Tuesday in October and after a public hearing, the County Council must set Spending Affordability Guidelines (SAG) for the bonds planned for issue (both general obligation and Park and Planning bonds) for years one and two of the six-year program and for the total six-year program. In adopting SAG, the Council considers, among other relevant factors:

- growth in the assessable base and estimated revenues from the property tax;
- other estimated revenues;
- Countywide debt capacity;

- relative tax burden on County taxpayers;
- the level of inflation and inflation trends;
- demographic trends, including population and education enrollment;
- commercial construction, housing, and other building activity; and
- employment levels.

By the first Tuesday in February, the Council may increase, by up to ten percent, or decrease the guidelines to reflect a significant change in conditions by a simple majority vote.

If the final Capital Improvements Program budget exceeds the guidelines then in effect, seven affirmative votes are required.

Capital Budget/CIP Preparation and Executive Review

Departments and agencies prepare budget requests within guidelines established by the Executive (for the departments) and by law (for other agencies of government). These are submitted on scheduled dates for analysis by the Office of Management and Budget (OMB) and are reviewed by the Executive during the period September - December. The review process culminates in final decisions and Executive recommendations in the budget document submitted to the Council by January 15.

Public Hearings

Citizen participation is essential to a fair and effective budget process. Many citizens and advisory groups work with specific departments to ensure that their concerns are addressed in departmental requests. The County Charter requires the Council to hold a public hearing not earlier than 21 days after receipt of the budget from the Executive. For further information and dates of the Council's public hearings on the County Executive's Recommended Capital Budget/CIP, contact the Legislative Information Office at 240.777.7900. Hearings are held in the Council Hearing Room of the Stella B. Werner Council Office Building, unless otherwise specified.

Public hearings are advertised in County newspapers. Speakers must register with the Council Office to testify at the public hearings. Persons wishing to testify should call the Council Office to register at 240.777.7931. If it is not possible to testify in person at the hearings, written testimony is acceptable and encouraged.

Council Budget Review

After receiving input from the public, the Council begins its review of the Executive's Recommended Capital Budget/CIP. Each category area and agency program is reviewed by a designated Council committee. Agency and OMB representatives meet with these committees to provide information and clarification concerning the recommended budget and six-year plan for each project. In April and May,

the full Council meets in regular session, reviews the recommendations of its Committees, and takes final action on each project.

Operating and Capital Budget Approval

The Charter requires that the Council approve and make appropriations annually for the operating and capital budgets by June 1. In even-numbered calendar years, the Council also approves a six-year Capital Improvements Program. Prior to June 30, the Council must set the property tax levies necessary to finance the budgets.

Amending the Approved Operating and Capital Budgets

The operating and capital budgets may be amended at any time after adoption by the Council. The following terms are included in the glossary contained elsewhere in this document:

Supplemental appropriations are recommended by the County Executive, specify the source of funds to finance the additional expenditures, and generally occur after January 1 of the fiscal year. Supplemental appropriations approved before January 1 are made only to comply with, avail the County of, or put into effect the provisions of Federal, State, or local legislation or regulations. Supplemental appropriations must be approved by five of the nine members of the Council.

Special appropriations are recommended by either the County Executive or County Council and are used when it is necessary to meet an unforeseen emergency or disaster or act without delay in the public interest. The Council may approve a special appropriation after a public notice by news release, and each special appropriation must be approved by six of the nine members of the Council.

Transfers of appropriation, which do not exceed ten percent of the original appropriation, may be accomplished by either: the County Executive, where transfers are within or between divisions of the same department; or by the County Council, where transfers are between departments or to new accounts.

Other sections of the Charter provide for Executive veto or reduction of items in the budget approved by the Council and the accumulation of surplus revenues.

Amending the Approved CIP may be done by the County Council at any time for either new projects or changes to existing projects which require appropriation and meet one or more of the following criteria:

- Project leverages significant non-County sources of funds (for example, Federal aid for Bridges, State aid for schools);
- Project is needed to comply with effects of a new law;
- Project is needed to address an *urgent* health or safety concern;

- Project is needed to address an *urgent* school capacity need (for example, adjustment to assure current project meets scheduled September opening or a new project for a newly identified need);
- Project offers the opportunity to achieve *significant* savings or cost avoidance or to generate *significant* additional revenue (for example, the bid has come in lower than budget, allowing funds to be redirected; operating budget savings are documented; fees collected will increase);
- Project is needed to keep transportation or school projects on approved growth policy schedule;
- Project supports *significant* economic development initiatives, which in turn will strengthen the fiscal capacity of the County government;
- Project offers a *significant* opportunity, which will be lost if not taken at this time;
- Project scope adjustment is needed on inter-jurisdictional projects due to changed conditions;
- Project is delayed for policy reasons;
- Project has validated extraordinary inflation (as seen in bids);
- Project must be amended for technical reasons (for example, to implement policy or recognize extraordinary cost increases);
- Project expenditures can be/must be delayed to provide fiscal capacity, given changes in conditions since the Approved CIP was adopted; and
- Project or subproject is proposed to increase: relatively by at least 10 percent and absolutely by at least \$1,000,000 from the last adopted CIP; or absolutely by at least \$2,000,000 from the last adopted CIP.

CAPITAL IMPROVEMENTS PROGRAM AND CAPITAL BUDGET

The CIP covers construction of all public buildings, roads, and other facilities planned by County public agencies over a six-year period. The CIP is an integrated presentation, including capital expenditure estimates, funding requirements, capital budget requests, and program data for all County departments and agencies. The capital budget includes required appropriation expenditures and funding for the forthcoming fiscal year, the first year of the six-year program. An estimate of required appropriations for the second year of the six-year program is also included.

In addition to these documents, the County publishes a growth policy to provide guidance to agencies of government and to citizens on matters concerning land use development; growth management; and related environmental, economic, and social issues. The growth policy serves as a major tool in managing the County's development, and as such, provides significant

guidance in the preparation of the CIP and the commitment of resources in the six-year PSP.

WHY CAPITAL PROGRAMMING?

A coordinated program for the planning, implementation, and financing of public facilities and other physical infrastructure is essential to meet the needs of a County with diverse population and resources. "Capital improvements" are those which, because of expected long-term usefulness, size, and cost, require large expenditures of capital funds usually programmed over more than one year and result in a durable capital asset. The largest single source of capital project financing is tax-exempt bonds. The bonds are issued as general obligations of the County, by a self-supporting agency, or as an obligation of the revenues supporting a specific project. The debt service on these bonds--the repayment of principal and interest over the life of the bonds--becomes one of the items in the annual operating budget and, thus, a factor in the annual tax rate. Also, the County's fiscal policy sets certain limits on the total amount of debt that can be incurred in order to maintain fiscal stability and the highest available quality rating for County bonds, thereby obtaining the lowest interest rate. It is, therefore, critical that the CIP be both cost-conscious and balanced over the six-year period so that the fiscal impact will not weigh too heavily in any single year.

The objectives of the CIP may be summarized as:

- To build those facilities required to support the County's PSP objectives.
- To support the physical development objectives incorporated in approved County plans, especially land use master plans as controlled by the County's General Plan, growth policy, and Adequate Public Facilities Ordinance.
- To assure the availability of public improvements to provide site opportunities to accommodate and attract private development consistent with approved developmental objectives.
- To improve financial planning by comparing needs with resources, estimating future bond issues, plus debt service and other current revenue needs, and, thus, identifying future operating budget, tax rate, and debt capacity implications.
- To establish priorities among projects so that limited resources are used to the best advantage.
- To identify, as accurately as possible, the impacts of public facility decisions on future operating budgets, in terms of energy use, maintenance costs, and staffing requirements.
- To provide a concise, central source of information on all planned public construction for citizens, agencies, and other interest groups.
- To provide a basis for effective public participation in decisions related to public facilities and other physical improvements.

While the County's planning and programming process is established, the CIP is improved and refined from year to year in order to seek the most effective means of providing needed public facilities in a timely and fiscally-responsible manner.

CIP IMPACTS ON THE OPERATING BUDGET

The CIP impacts the operating budget in several ways:

Debt Service. The annual payment of principal and interest on general obligation bonds and other long-term debt used to finance roads, schools, and other major projects is included in the operating budget as a required expenditure.

Current Revenue Funding. Selected CIP projects are funded directly with County current revenues in order to avoid costs of borrowing. These amounts are included in the operating budget as specific transfers to individual projects within the capital projects fund.

Pay-As-You-Go (PAYGO) Financing. An additional amount may be included in the operating budget as a direct bond offset to reduce the amount of borrowing required for project financing.

Operating Budget Impacts. The construction of government buildings and facilities usually results in new annual costs for maintenance, utilities, and additional staffing required for facility management and operation. Whenever a new or expanded facility involves program expansion, as with new school buildings, libraries, or fire stations, the required staffing and equipment (principals, librarians, fire apparatus) represent additional operating budget expenditures. The Executive's Recommended CIP includes analysis of these operating budget impacts to aid in review and decisions relative to the timing of public facilities and to more clearly show what a new building or road will cost in addition to its construction costs and any required debt service.

Public Facilities Planning. Planning for capital improvements projects is tied to the County's continuing development and growth in population, numbers of households, and businesses. Land use master plans and sector plans for the County's geographic planning areas anticipate needs for roads, schools, and other facilities required by new or changing population. Functional plans anticipate needs for government functions and services ranging from provision of water and sewerage to solid waste disposal, libraries, and fire and rescue services. Other studies assess future educational, health, and human services needs of the County. These plans are analyzed for likely new facilities or service delivery requirements and their potential operating costs which will eventually add to annual operating budgets. Each year, the County continues its efforts to improve the linkages between the CIP, the PSP, and County planning activities.

CIP CATEGORIES

One of the features of Montgomery County's capital programming is the classification of County government projects and other agency programs into the categories listed below. These categories classify the activities of local government on a functional basis which is closely related to the County's computerized accounting system. The published CIP documents are organized by categories for County government departments and by agency for organizations outside the Executive departments.

The six-year PSP/Operating Budget also uses a similar category structure to describe functional operating services of the County government and other County agencies. With both the six-year PSP and CIP utilizing these categories as an overall organizational framework, relationships between public facilities and public services can be seen.

CIP Categories/Subcategories

General Government

County Offices and Other Improvements
Economic Development
Other General Government
Technology Investment Fund
Technology Services

Public Safety

Correction and Rehabilitation
Fire and Rescue Services
Other Public Safety
Police

Transportation

Fleet Management Services
Highway Services
Mass Transit/WMATA
Parking Facilities
Pedestrian Facilities, Bikeways, and Trails
Roads, Bridges, and Traffic Improvements

Sanitation

Solid Waste Management

Under WSSC:

Sewerage (Bi-County)
Sewerage (Montgomery County)
Water (Bi-County)
Water (Montgomery County)

Health and Human Services

Culture and Recreation

Public Libraries

Recreation

Community Recreation and Urban Beautification Parks (under M-NCPPC)

Golf Courses (Under Revenue Authority)

Conservation of Natural Resources

Agricultural Land Preservation

Natural Waterway Improvements

Storm Drains

Stormwater Management

Conservation Parks (under M-NCPPC)

Regional Parks (under M-NCPPC)

Special Parks (under M-NCPPC)

Community Development and Housing

Community Development

Housing

Housing - HOC

Non-Departmental

Education

Countywide (MCPS)

Individual Schools (MCPS)

Higher Education (Montgomery College)

SPECIAL PROJECTS LEGISLATION

In November 1978, the County Charter was amended to require certain County funded special capital improvement projects be individually authorized by law. The County Executive and County Council have fulfilled this obligation each year, affording citizens of Montgomery County greater opportunity to participate in the capital budget process and to petition projects to referendum at the next scheduled election.

Section 302 of the County Charter and Section 20-1 of the County Code require that all capital improvement projects which meet any of the following criteria be individually authorized by law: all capital projects, except those excluded by law, which are in excess of the annually revised cost criterion; all capital projects which are determined by the County Council to possess unusual characteristics; or any capital project which is determined to be of sufficient public importance to warrant special legislation. Section 20-1 of the County Code applies special capital improvement project requirements to all buildings, roads, utilities, parks, and related improvements which are proposed for development on a single, unified site, are identifiable as separate facilities, and meet one of the three County Charter criteria described above.

The cost criterion used to determine whether a project needs special legislation is revised each year by Executive Order and reflects the annual change in the published composite cost index established by the U.S. Department of Commerce. The cost criterion applicable to projects in the FY09 Capital Budget and

the FY09-14 Capital Improvements Program is \$13,761,000. The accompanying chart presents the changes in the cost criterion since 1978.

Base Year	Cost Criteria (\$000s)	CIP	Base Year	Cost Criteria (\$000s)	CIP
1978	4,000	FY80-85	1991	7,089	FY93-98
1979	4,540	FY81-86	1992	7,089	FY94-99
1980	5,025	FY82-87	1993	7,354	FY95-00
1981	5,359	FY83-88	1994	7,652	FY96-01
1982	5,525	FY84-89	1995	8,022	FY97-02
1983	5,600	FY85-90	1996	8,411	FY98-03
1984	5,600	FY86-91	1997	8,697	FY99-04
1985	5,738	FY87-92	1998	8,895	FY00-05
1986	6,322	FY88-93	1999	9,314	FY01-06
1987	6,406	FY89-94	2001	10,063	FY03-08
1988	6,512	FY90-95	2003	11,150	FY05-10
1989	6,685	FY91-96	2005	12,298	FY07-12
1990	6,975	FY92-97	2007	13,761	FY09-14

The tables that follow the separate narrative sections of this document show the capital improvement projects for which special authorization is requested and those not subject to authorization, but which exceed the cost limit.

Public hearings, as required by law for all legislation, will be conducted in the spring, and any special capital improvement authorization enacted by the County Council is valid for five years after the authorization becomes law. The Council may reauthorize a project before or after an existing authorization expires. An authorized project need not be reauthorized if a contract for construction of the project is executed before the authorization expires. These requirements do not apply to projects financed with Revenue Bonds.

GOVERNMENT STRUCTURE

Montgomery County includes several organizational components and joint ventures, including:

Montgomery County Government (MCG), which includes Executive departments (such as Recreation, Public Works and Transportation, Police) and offices (such as County Attorney), the County Council's legislative offices and boards, the Circuit Court, and judicial offices;

Montgomery County Public Schools (MCPS), under the authority of the Board of Education (BOE);

Montgomery College (MC), the County's two-year community college, under the authority of its Board of Trustees;

Maryland-National Capital Park and Planning Commission (M-NCPPC), a bi-county agency which manages

public parkland and provides land use planning, with administration shared with Prince George's County;

Washington Suburban Sanitary Commission (WSSC), a bi-county agency which provides water and sewer service to Montgomery and Prince George's Counties;

Housing Opportunities Commission (HOC), the County's public housing authority;

Montgomery County Revenue Authority, a public corporation for self-supporting enterprises of benefit to the County; and

Bethesda Urban Partnership, a not-for-profit organization, executes contracts for the benefit of one of the primary Government's special taxing districts (Bethesda Urban District).

Along with M-NCPPC and WSSC, the following organizations are also considered joint ventures of the County: Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA).

An organization chart is included at the back of this section to help the reader understand the relationship between the Executive's Recommended Budget and the several agencies of government in Montgomery County.

APPENDICES TO THIS SECTION

Montgomery County Map

This map displays the major roads in the County, and the County's location in the State of Maryland.

Montgomery County Government Public Documents

This table contains a list of all budget-related public documents, including the approximate dates of publication and how they may be obtained.

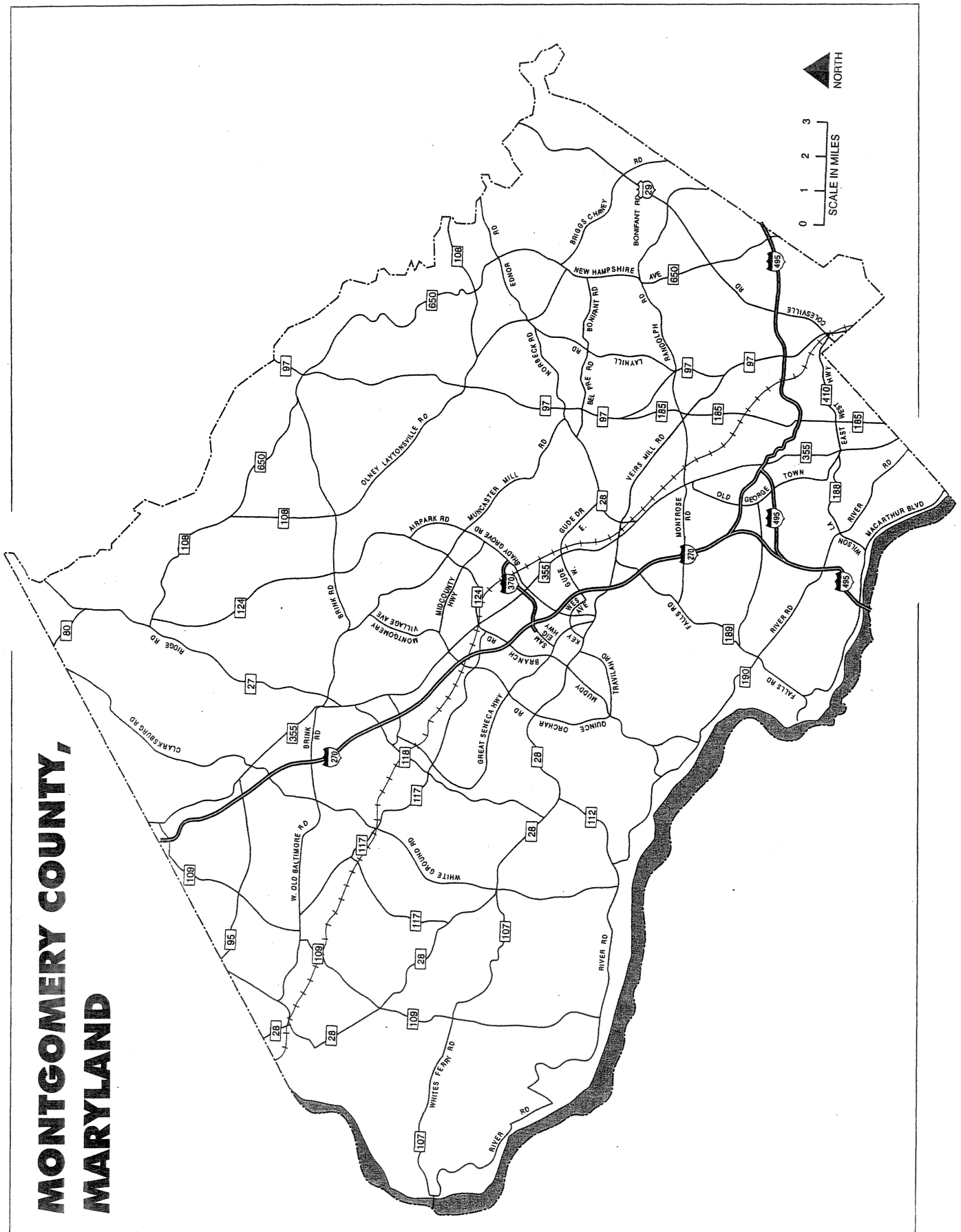
Budget Process Flow Chart

This chart follows the Capital/CIP and Operating/PSP budget process from the start of the process in August to the final approval of the budgets in June for all agencies.

Montgomery County Functional Organization Chart

This chart displays the organizational structure of departments and agencies for the County government.

MONTGOMERY COUNTY, MARYLAND



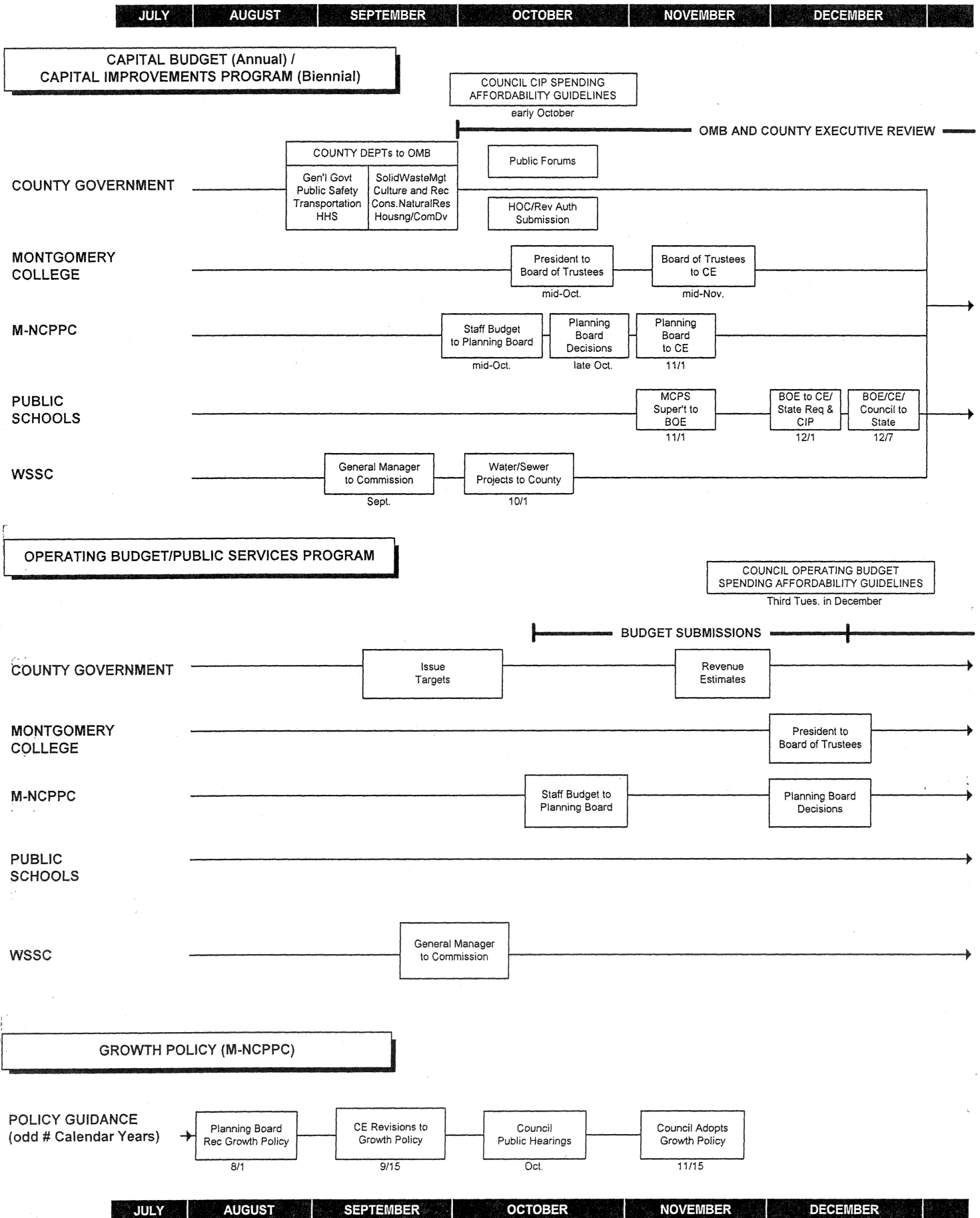
MONTGOMERY COUNTY PUBLIC DOCUMENTS: ANNUAL BUDGETS, GROWTH POLICY, AND OTHER SOURCES OF INFORMATION

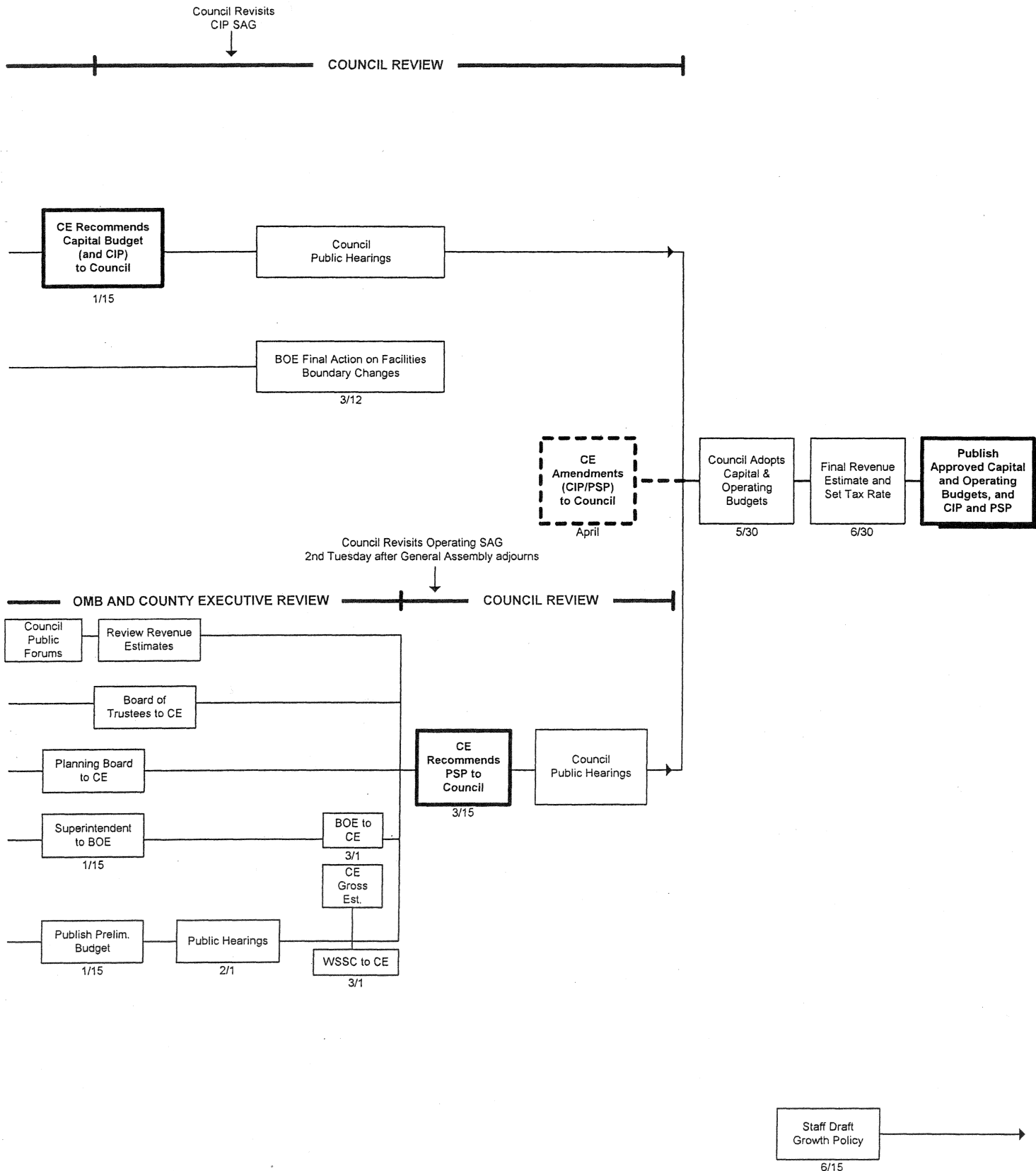
<u>DATE</u>	<u>ITEM</u>	<u>AVAILABILITY</u>
January 15 (even calendar years)	COUNTY EXECUTIVE'S RECOMMENDED CAPITAL BUDGET AND CAPITAL IMPROVEMENTS PROGRAM (CIP) County Executive's Transmittal; Introductory Sections; County Government Departments; HOC; Revenue Authority; MCPS; Montgomery College; M-NCPPC; WSSC	Reference copies at all public libraries Office of Management and Budget (240.777.2800) (for purchase on limited basis) World Wide Web at: www.montgomerycountymd.gov/omb
January 15 (odd calendar years)	COUNTY EXECUTIVE'S RECOMMENDED CAPITAL BUDGET AND AMENDMENTS TO (PRIOR YEAR) CAPITAL IMPROVEMENTS PROGRAM County Executive's Transmittal; Capital Budget; Amendments	Reference copies at all public libraries Office of Management and Budget (240.777.2800) (for purchase on limited basis) World Wide Web at: www.montgomerycountymd.gov/omb
March 15	COUNTY EXECUTIVE'S RECOMMENDED OPERATING BUDGET AND PUBLIC SERVICES PROGRAM County Executive's Transmittal; Financial Summaries; Legislative, Judicial, Executive Branch Departments; MCPS; Montgomery College; M-NCPPC; WSSC	Reference copies at all public libraries Office of Management and Budget (240.777.2800) (for purchase on limited basis) World Wide Web at: www.montgomerycountymd.gov/omb
March 31	FISCAL PLAN Contains estimates of costs and revenues over the six-year planning period for all Montgomery County special and enterprise funds and many Agency funds.	Office of Management and Budget (240.777.2800) World Wide Web at: www.montgomerycountymd.gov/omb
June 15 (odd calendar years)	PLANNING BOARD RECOMMENDED GROWTH POLICY - STAFF DRAFT	Reference copies from M-NCPPC (301.495.4610)
mid-July (even calendar years)	APPROVED OPERATING AND CAPITAL BUDGETS, AND APPROVED CAPITAL IMPROVEMENTS PROGRAM PSP and CIP Appropriation and Approval Resolutions; Operating Budget, CIP and Capital Budget Summaries; Project Description Forms for County Government Programs, HOC, Revenue Authority, MCPS, Montgomery College, M-NCPPC, and WSSC	Reference copies at all public libraries Office of Management and Budget (240.777.2800) (for purchase on limited basis) World Wide Web at: www.montgomerycountymd.gov/omb
mid-July (odd calendar years)	APPROVED OPERATING AND CAPITAL BUDGETS, AND APPROVED AMENDMENTS TO THE CAPITAL IMPROVEMENTS PROGRAM PSP and CIP Appropriation and Approval Resolutions; Operating and Capital Budget Summaries; and selected Project Description Forms for County Government Programs, HOC, Revenue Authority, MCPS, Montgomery College, M-NCPPC, and WSSC	Reference copies at all public libraries Office of Management and Budget (240.777.2800) (for purchase on limited basis) World Wide Web at: www.montgomerycountymd.gov/omb
August 1 (odd calendar years)	PLANNING BOARD RECOMMENDED GROWTH POLICY – FINAL DRAFT	Reference copies from M-NCPPC (301.495.4610)

**MONTGOMERY COUNTY PUBLIC DOCUMENTS:
ANNUAL BUDGETS, GROWTH POLICY, AND OTHER SOURCES OF INFORMATION**

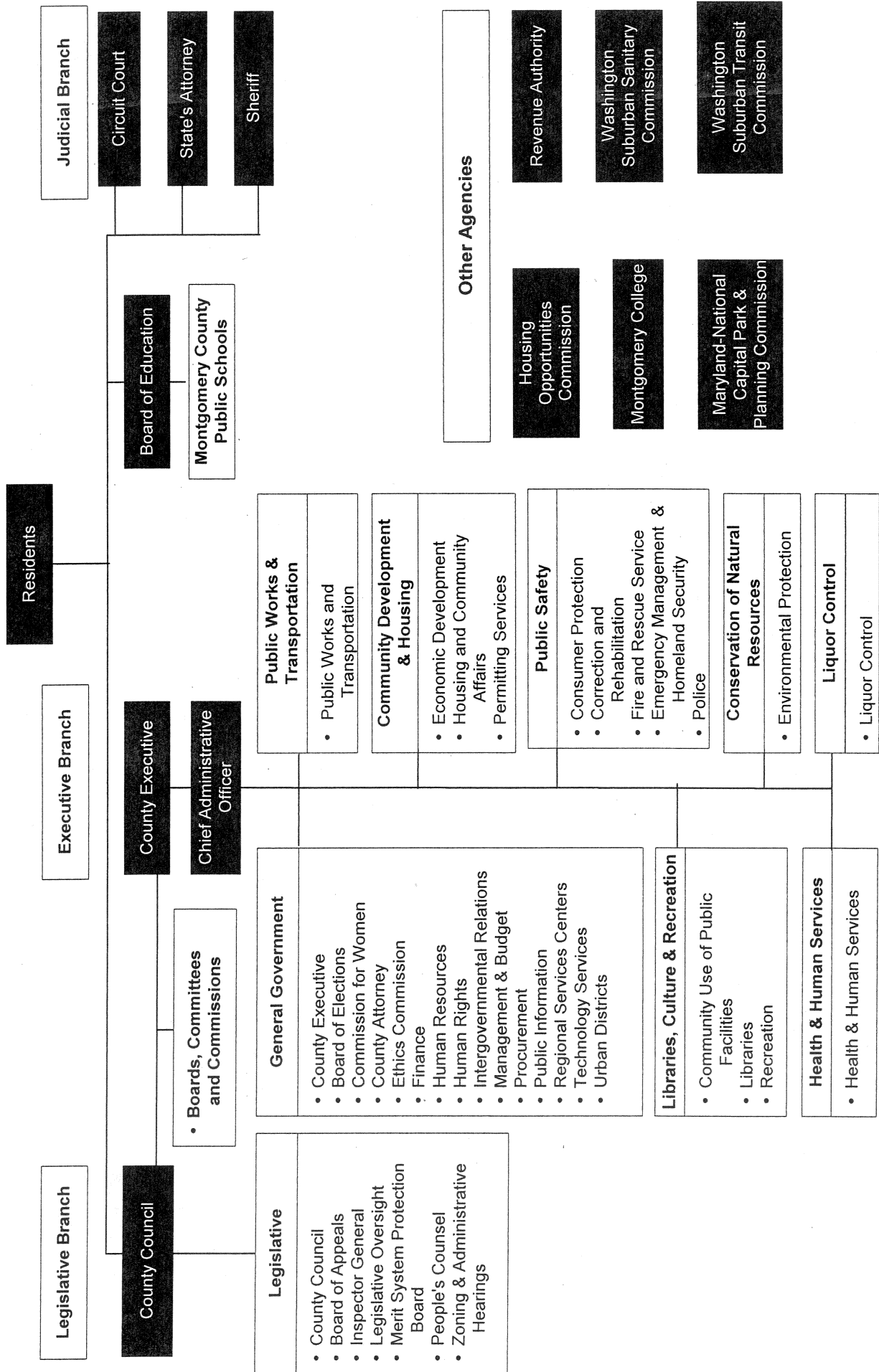
<u>DATE</u>	<u>ITEM</u>	<u>AVAILABILITY</u>
Late December	COMPREHENSIVE ANNUAL FINANCIAL REPORT	Reference copies at all public libraries Department of Finance (240.777.8822) (on limited basis) www.montgomerycountymd.gov/finance
Quarterly	ECONOMIC INDICATORS	Department of Finance (240.777.8866) World Wide Web at: www.montgomerycountymd.gov/finance
Monthly (To update the Economic Indicators Report)	ECONOMIC UPDATE	Department of Finance (240.777.8866) World Wide Web at: www.montgomerycountymd.gov/finance
Annually	ANNUAL INFORMATION STATEMENT	Reference copies from the Department of Finance (240.777.8866) (on limited basis)
Available throughout the year	MONTGOMERY COUNTY HISTORICAL SOCIETY INFORMATION	Montgomery County Historical Society (301.340.2825) World Wide Web at: www.montgomeryhistory.org
Available throughout the year	MONTGOMERY COUNTY DEMOGRAPHIC INFORMATION	Maryland-National Capital Park and Planning Commission: Montgomery County Planning Board (301.495.4700) World Wide Web at: www.mc-mncppc.org/research and www.mcparkandplanning.org/research/omb/

BUDGET PROCESS FLOW CHART





Montgomery County, Maryland Functional Organization Chart



NOTE: The County Executive has proposed a reorganization of departments that will affect Public Works and Transportation, Procurement, and Environmental Protection.